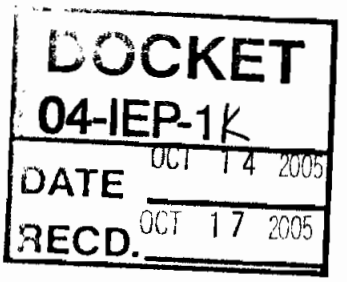
October 14, 2005



California Energy Commission
Docket Office
1516 Ninth Street
Sacramento, CA 95814-5512
Attn: Docket No. 04 IEP 1K

Dear Commissioners Geesman and Boyd:

Re: SCE's Comments on the Committee's Draft 2005 IEPR

Southern California Edison (SCE) has the following comments and observations regarding the Committee Draft 2005 Integrated Energy Policy Report (2005 IEPR Draft). Although elements of the 2005 IEPR Draft represent a thoughtful assessment of key energy issues, there are several policies advocated with respect to which SCE has major concerns. These include:

- An Executive Summary which contains inequitable policies and advocacy statements;
- A biased and inaccurate confidentiality discussion
- A recommendation that only IOUs procure long-term resources;
- Findings on combined heat and power (CHP) which do not correlate to the extensive California Public Utilities Commission (CPUC) record;
- Incorrect statements regarding California's renewables program; and
- Greenhouse gas reduction power plant performance standards and general policies that are unworkable will lead to significant and harmful price increases, increase the State's reliance on volatile natural gas as a generation fuel, and threaten the reliability of electricity supplies to the State.

SCE is committed to working with the California Energy Commission (CEC) to restore California's energy market so that it operates in an efficient, reliable, equitable, and environmentally sound manner. SCE's detailed comments are presented in the attached, with an overview of our major policy concerns discussed below.

Although much has been accomplished over the past several years, there are three main policy issues that remain unresolved. First, policies which stabilize the retail market are needed. The current lack of a coherent retail policy continues to constrain investment in new generation. Second, public policies must be applied equally to all load serving entities (LSEs). Finally, the State needs to equitably resolve issues related to resource adequacy and overall market structure.

Need For An Equitable and Durable Electricity Market Structure

California policy makers need to recognize that electricity is a unique product, production and delivery of which is governed by the laws of physics, just economic policy. The long lead-

times for developing electric infrastructure and the time horizons required to amortize substantial capital investments necessitate an orderly, durable, and equitable regulatory framework. Prudent and orderly implementation of long-term policies is essential to ensure the reliable, reasonably priced, and environmentally-sound service Californians expect. However, several key policy issues still need to be addressed and resolved.

The electricity industry is defined by the structure of the retail market. Without a stable retail market with equitable "coming and going" rules and rolling notice periods, the financing of new generation will not keep pace with the State's needs. Simply stated, no LSEs will an incentive to enter into procurement obligations with terms longer than the length of the commitments they expect from their customers.

Finally, policy makers in California have had an unfortunate history of placing obligations on IOUs which are not placed on other retail providers. Whether these are renewable portfolio standards, greenhouse gas adders, local area reliability procurement resource adequacy requirements, or the potential release of market sensitive data, it is imperative that public policies be applied equally to all LSEs. No legitimate public policy exists to do otherwise.

Concerns Regarding the Reassignment of Transmission Siting

The 2005 IEPR Draft Report suggests reassignment of the regulatory responsibility for siting new transmission. It is ill-advised to alter a process that is working. Although there have been concerns in the past regarding the siting of major transmission projects by the CPUC, the vast majority of projects which come before the CPUC are approved in an expeditious manner. Recent history indicates that the CPUC is proceeding expeditiously in the processing of applications for major new projects.

Need for Transmission Infrastructure Between Northern and Southern California

An important transmission concern that receives little attention in the 2005 IEPR Draft Report is the need to mitigate transmission congestion between Northern and Southern California. Although various smaller projects have been pursued to help reduce the amount of congestion, the 2005 IEPR Draft Report should focus directly on this critical area.

Not only has the ZP-26 bottleneck impacted economics, it has also contributed to the Summer 2005 concerns in Southern California. Consideration should be given to accelerating a 500kV connection from Northern California to the Tehachapi area. Such a proposal already exists as part of the Tehachapi Transmission Plan (Phase 4), and SCE has also indicated that it is considering adding an extension of its planned 500kV system from the Tehachapi area to central California (Midway) to its current proposed Tehachapi transmission proposal Although this extension is in the preliminary study phase, projects like this, along with theacceleration of Phase 4, help mitigate ZP-26 congestion, and also greatly expand the State's access to the renewable resources in the Tehachapi region.

Natural Gas Supply and Demand

Three State policies are needed. First, the State should assure greater openness in the pricing and availability of natural gas transportation. While the wholesale and retail markets for natural gas are competitive and pricing and volume information should remain confidential, gas transportation is not competitive.

Second, the State should encourage an increase in natural gas supply, including the development of liquefied natural gas (LNG) to increase wholesale competition and reduce supply volatility.

Third, quality standards for LNG should be the same as those for existing supply. LNG providers should be required to invest in appropriate equipment so that the many users of natural gas will not need to alter their equipment and processes.

Research, Development and Demonstration

SCE supports research, development, and demonstration efforts, but requests that the CEC increase its focus on research of technologies that reduce, collect, or sequester greenhouse gases.

Preferential Treatment of DG and CHP is Inappropriate

Although the 2005 IEPR Draft Report recognizes the difference between distributed generation and CHP systems, it needs to recognize the significant operational and economic differences that exist between a two kilowatt photovoltaic installation and a 300,000+ kilowatt enhanced oil recovery or refinery project.

The 2005 IEPR Draft also needs to consider that, after paying billions in excess costs to subsidize the development of qualifying facilities, including cogeneration facilities, customers deserve to share in the some of the claimed benefits from CHP projects going forward. CHP proponents frequently highlight the efficiency benefits of their projects in an attempt to move up in the loading order. However, it should be recognized that not all CHP applications achieve the same efficiencies. Further, customers will not realize any of the claimed economic and societal benefits of CHP unless the State adopts appropriate and lawful procurement and pricing policies for cogeneration. However, the 2005 IEPR Draft Report recommends pricing and quotas that will inevitably perpetuate above market costs and subsidies for cogeneration power for years to come, thereby depriving the State and its electricity customers of the very benefits which are claimed to justify special consideration of these resources in the first place.

Crafting a Reasoned Climate Change Policy for California

While SCE supports State policy that addresses climate change in a manner that balances the potential benefits with the likely increased cost to the State, the policy proposed by the IEPR Draft Report to apply emission rates achievable only by natural gas fired combined cycle plants to all power procurement would compromise the State's goal for a reliable, reasonably priced supply of electricity to the State. Moreover, the benefits of such a proposed policy with respect to reducing the likely effects of global climate change on the State are not addressed and may very well be non-existent. The State must carefully study the feasibility, cost-effectiveness, and environmental benefits of "natural gas" only standard before moving forward with such a policy. Additionally, the State should carefully assess the legal hurdles such a proposed policy would face, both in terms of the Interstate Commerce Clause and with respect to failure to apply the

policy to all LSEs in a uniform manner. SCE provides more detailed suggestions on a general climate change policy in its attached comments. If, despite the cited weaknesses of the current State proposals to deal with the global climate change policy, California chooses nevertheless to act unilaterally to adopt mandatory GHG reductions—the State must, at a minimum, include price off ramps for any mandatory cap and trade system and develop an unrestricted GHG offset policy that reduces cost of achieving desired reductions.

Finally, the CEC needs to recognize the potential adverse impact that these facilities may have on air quality. In May 2005, the University of California Energy Institute completed a study indicating that the DG systems tested produced an "order of magnitude increase in harmful emissions."

Conclusion

Again, SCE appreciates the opportunity to summarize our comments on your 2005 IEPR Draft and would like to reiterate our commitment to working with you in developing sound policies that strengthen California's energy infrastructure and provide its citizens with safe, reliable and environmentally sound power at reasonable costs.

Sincerely,

Gary Schoonyan

Attachment
cc: Chairman Joseph Desmond
Commissioner Jackalyne Pfannenstiel
Commissioner Arthur H. Rosenfeld

SOUTHERN CALIFORNIA
EDISON

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(U 338-E)

Southern California Edison Company's Comments On The Draft 2005 Integrated Energy Policy Report

Before the
Public Utilities Commission of the State of California

Rosemead, California
October 14, 2005

Southern California Edison Company's Comments On The Draft 2005 Integrated Energy Policy Report

Table Of Contents

Table Of Contents (Continued)

Table Of Contents (Continued)

I.

INTRODUCTION

Southern California Edison Company (SCE) appreciates the opportunity to provide comments on the 2005 Integrated Energy Policy Report (Report) of the California Energy Commission (CEC). These comments address the following issues:

- Confidentiality;
- Need for new generation;
- Demand response;
- Distributed generation (DG) and combined heat and power (CHP);
- Renewable resources and procurement;
- Water and energy strategies; and
- Global climate change.

II.

COMMENTS ON EXECUTIVE SUMMARY

There are numerous statements and recommendations in the Report's Executive Summary that are inaccurate, inequitable, or unjustified. Furthermore, the Executive Summary is overtly friendly to electric service provider (ESP) and generator interests and generally fails to recognize and account for fundamental customer needs, values, and protection. Below SCE outlines specific areas where it disagrees with the Executive Summary's assertions.[1]

First, contrary to the Executive Summary's assertion, the procurement of renewable resources necessary to satisfy renewable procurement standard (RPS) requirements has not been delayed.[2] Although several renewable solicitations have

[1] Several of these areas are addressed at greater length in SCE's issue specific comments, herein.
[2] *See* Report at E-1.

taken longer than anticipated, in part, because they occurred in parallel with the California Public Utilities Commission's (CPUC's) implementation of rules and regulations governing the program, the procurement activities of SCE and other investor-owned utilities (IOUs) have resulted in contracted for renewable capacity in excess of the RPS requirements. Furthermore, much of the additional time needed to complete the initial rounds of procurement produced protocols and contract terms and conditions, which, with the benefit of experience, should greatly expedite the completion of future ongoing and future solicitations.

Second, identified State transmission infrastructure concerns are the result of a deregulated market structure rather than systematic under-investment.[3] California's transmission system was designed to efficiently integrate with regulated generation in order to reliably transmit power. Under the regulated environment, individual utilities operated their own control areas and dispatched and committed generation in conjunction with transmission in an efficient and valuable manner. The transmission congestion the State now experiences is a result of the deregulated operation of generation facilities within the power system and not the "systematic under investment in transmission."

Third, all LSEs need to equitably invest in new long-term generation infrastructure, not just IOUs.[4] The Report erroneously singles out IOUs on this subject, without focusing on non-regulated ESPs.

Fourth, there will not be serious adverse consequences if marginal CHP does not continue to operate.[5] The Report incorrectly assumes all CHP generation is good. CHP historically has been unwilling to compete and has had the luxury of selling must-take power at above market prices, at above average emission rates,

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3 *See* Report at E-1.
4 *See* Report at E-2.
5 *See* Report at E-3.

without crediting non-participating customers with any of the alleged efficiency benefits.

Fifth, there has been no analysis by anyone that demonstrates that having IOUs alone disclose their market sensitive, confidential data provides benefits to consumers.

III.

COMMENTS ON CHAPTER 3—ELECTRICITY NEEDS AND PROCUREMENT POLICIES

A. The Report's Discussion Of Confidentiality Issues Is Biased, Inaccurate, And Detrimental To The Report's Overall Tone

The Report purports to provide an objective overview of a broad range energy policy issues facing California. Unfortunately, however, the Report's discussion of the confidentiality of market-sensitive information submitted in this proceeding lacks any semblance of objectivity. Although the CEC need not agree with the IOUs on issues concerning confidentiality,[6] it is inappropriate for the CEC to use its Report as a vehicle to advance litigation arguments in the form of unbiased, objective public policy recommendations. A more appropriate way to address the subject of confidentiality in the Report would be to refrain from commenting on the issue at all in light of pending litigation or, alternatively, to provide a balanced discussion of the policy debate, including a fair statement of the parties' arguments. SCE recommends that this section of the Report be withdrawn.

If the CEC nevertheless wishes to address confidentiality in the Report, the CEC should correct a number of inaccurate and misleading statements.

First:

> For the last several years, the CPUC's resource planning process has been shrouded with a significant degree of secrecy, with only a

[6] Particularly because it is a respondent in a Superior Court proceeding initiated in response to the CEC's confidentiality rulings.

> few individuals allowed to review and critique the data submitted by IOUs.[7]

In fact, most resource planning information is public. Additionally, a broad group of non-market participants have full access to the small amount of confidential data used in such planning. Indeed, one such forum, the IOUs' Procurement Review Groups (PRGs), was designed specifically to allow non-market participants the ability to review market-sensitive data and analysis. The PRGs include CEC staff members who participate subject to a non-disclosure agreement signed by the CEC's Executive Director.

Second:

> Under current confidentiality constraints, Commissioners are not able to review or scrutinize detailed information about IOU RPS solicitations, the application of least-cost, best-fit criteria, the terms and conditions of the full range of bids considered, and the contracts ultimately forwarded to the CPUC for approval.[8]

Throughout the Integrated Energy Policy Report (IEPR) process, CEC staff members have had access to market sensitive, confidential information regarding SCE's RPS solicitations. CEC Commissioners could also gain access to this information by executing a non-disclosure agreement, but have chosen not to do so.

Lastly:

> California IOUs claim that unique conditions in the state justify their desire to withhold planning information from the public. … Based on the Energy Commission's investigation, the notion that California IOUs are in some way different from other western utilities is unfounded.[9]

Again, this statement is a subjective litigation position that will ultimately be determined by the Superior Court. Accordingly, this statement should be withdrawn.

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[7] Report at 45.
[8] Report at 46.
[9] Report at 46.

B. All Load Serving Entities Should Be Encouraged to Enter Long-Term Contracts To Ensure The Development Of New Generation In California

The Report states:

> Electricity supplies are not keeping up with demand. Construction of new power plants is not proceeding as planned, and the flow of new permit applications has noticeably decreased. Today California has over 7,000 MW of permitted power plants that have not moved into construction. Adding to the problem, investor-owned utility (IOU) procurement focuses primarily upon near- and mid-term contracts, which perpetuate reliance upon the existing fleet of aging power plants.[10] … California has 7,318 MW of approved power plant projects that have no current plans to begin construction because they lack the necessary power purchase agreements to secure financing.[11]

SCE agrees that California needs new generation and that long-term power contracts are an important way to encourage construction of new power plants. The Report, however, is misleading when it states that "(IOU) procurement focuses primarily upon near- and mid-term contracts." All LSEs and not just IOUs rely on near/mid-term contracts. In fact, IOUs are the only entities that offer and sign long-term contracts today. As demonstrated in its 2004 CPUC Procurement Plan, SCE relies on long-term resources (with durations greater than five years) for 95 percent of its customers needs. Other LSEs should be encouraged to offer long-term contracts for generation to encourage construction of new power plants. As this recommendation is not currently in the Report, the Report should be revised to reflect it.

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[10] Report at 32.
[11] Report at 32.

IV.

COMMENTS ON CHAPTER 4—DEMAND-SIDE RESOURCES, DISTRIBUTED GENERATION, AND OTHER ELECTRICITY SUPPLIES

A. Demand Response – The Report Should Revise Its Comments On Advanced Metering

The Report asserts, "the state's policy makers must redouble their efforts to implement demand response programs and rapidly install advanced meters for all customers."[12] This policy recommendation should be qualified to reflect a requirement that advanced meters function with existing equipment and ensure security.[13] Specifically, the Report should be revised as follows:

> [T]he state's policy makers must redouble their efforts to implement demand response programs and rapidly install advanced meters that meet interoperability and security standards for all customers.

The Report also states, "For dynamic pricing to be most effective, however, the state also needs to develop an advanced metering infrastructure for all customers..."[14] This statement should be revised to state:

> For dynamic pricing to be most effective, however, the state also needs to develop a~~n~~ fully integrated, robust and cost-effective advanced metering infrastructure for all customers that meet state-wide requirements now and in the future. . . .

Lastly, the Report states, "It must be recognized that new metering technology will be the primary platform for the state's future demand response policies."[15] The Report must be revised to include the major benefits of advanced metering. It should be revised to include the following sentence, "The major benefit to an adaptable AMI approach is to allow customers, in exchange for a bill credit commensurate to the service they are providing, to reduce their loads to a level they contract for, in a manner they select, when system conditions dictate."

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12 Report at E-5.
13 *See* Federal Energy Policy Act, Sect. 1252, Smart Metering.
14 Report at 61.
15 Report at 60.

B. The Report's Policy Recommendations Regarding Cogeneration Are Premised On Flawed Evidence, Questionable Authority, And Negligible Analysis

The entire section of the Report addressing CHP needs to be substantially revised or withdrawn. This section of the Report repeatedly makes broad policy assertions and recommendations without supporting facts or analysis, particularly with respect to the State's existing and potential qualifying facility (QF) resources employing cogeneration technology. Examples of such assertions are too numerous to address here, therefore, SCE only includes a representative sample in the section below.

1. The Report Should Recognize The Difference Between Generation Technology Types, Sizes, And Applications

The Report consistently refers to DG and CHP as though any generation that could be characterized as DG or CHP is necessarily distinct from other forms of generation and thus deserving of a preference over other resources. There are significant differences between a 2 kW solar PV installation, a 300 MW enhanced oil recovery project, and a 1 kW Honda generator, each of which could arguably be characterized as DG. Even CHP generators can vary in size and application from a small 28 kW microturbine designed solely to serve customer onsite load to a 300 MW QF.

As the CEC is aware, both the governing laws and policy needs for small and large scale CHP applications are very different. For example, the rates and purchase obligations for large cogeneration facilities are governed by the Public Utility Regulatory Policies Act of 1978 (PURPA), while small DG applications are not. Conflating consideration of small DG applications and large cogeneration applications leads to confused policy discussion and recommendations, as amply demonstrated by this section of the Report. The CPUC has acknowledged that "the value of DG may depend on how the power is used, technology, fuel,

and application,"[16] and the Report should similarly tailor its recommendations to reflect appropriate distinctions among different types and uses of DG and CHP.

2. There Is No Evidence That There Have Been Major Barriers To The Development Of Cogeneration In California

At page 63, the Report states:

> Despite policy preferences, DG and CHP deployment in California has struggled with major barriers to market entry and policy implementation in the context of traditional utility cost-of-service grid management.[17]

The Report provides no support for this inaccurate generalization. According to the Report, cogeneration represents approximately 17 percent of the state's total generation.[18] This large percentage is a result of the State's aggressive policies implementing PURPA in the early 1980s through standard offer contracts. While these policies have made California the second largest consumer of cogeneration power in the country, oversubscription, over-priced contracts, and forecast error have resulted in billions of dollars of stranded costs and ratepayer subsidies for cogeneration. Cogeneration contracts mandated pursuant to PURPA continue to be the most expensive in the state's portfolio of resources. On average, SCE pays its cogenerators 8.56 cents/kWh for delivered energy and capacity, a rate higher than any other sector of the market, including the DWR contracts. The aggressive policies advocated in the Report, unless firmly anchored in sound resource planning and pricing policy will inevitably perpetuate above market prices for this sector of the energy market, an outcome that is not in Californians' interest.

3. There Is No Evidence That Wide-Scale Shutdown Of Cogenerations Is Imminent As Existing PURPA Contracts Begin To Expire

At page 63, the Report asserts:

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16 R.04-03-017 Scoping Memo, issued August 6, 2004, at 7.
17 Report at 63.
18 Report at 64.

> In fact, many larger-scale CHP systems in operation today, the result of generation contracts signed during the early 1980s following the national energy crisis of the late 1970s, are at risk of shutting down in the near future as these contracts expire. It is estimated that as much as 2,000 MW is at risk of shutting down between now and 2010 due to the inability of the owners to renew contracts with utilities.[19]

There is no evidence of any imminent threat that existing facilities under contract with SCE will shut down, or for that matter that this is a statewide threat. As the sole authority for the sweeping generalization quoted above, the Report cites to oral and written comments of counsel for the Cogeneration Association of California (CAC). Although other contrary comments were filed and oral statements made, they are not referenced. Yet contrary to CAC's claims, the Report does not identify a single cogeneration facility under contract with SCE that has shut down or will shut down under the State's current policies. Indeed the only SCE facility even referred to in the text of the Report (at footnote 94) continues to operate pursuant to a CPUC-approved form of interim contract with a term of five years. Accordingly, this section of the Report should be revised, at a minimum, to reflect the facts.

4. The Report Asserts, Without Any Analysis Or Evidence, That California "lack[s] a robust, functioning, wholesale market"

At page 64 of the Report, the CEC offers the unsubstantiated opinion that "Lack of a robust, functioning wholesale market in California exacerbates potential CHP customer concerns. . . ."[20] Later, at page 66, the Report, referring to the recently enacted federal Energy Policy Act, asserts that PURPA is likely to remain in effect for the foreseeable future "due to the lack of a robust and functioning wholesale market in the state."[21] On the basis of these statements, the Report makes a number of policy recommendations, including the development

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19 Report at 63.
20 Report at 64.
21 Report at 66.

of mandatory, long-term contracts and a cogeneration quota in California. However, there is no evidentiary or analytic basis for this sweeping assessment about California's wholesale energy market. Further, whether the market conditions for the suspension of PURPA exist in California is an inquiry and assessment that must be made by the Federal Energy Regulatory Commission (FERC) pursuant to the Energy Policy Act, not by the CEC. For all of the reasons, comments in the Report concerning the wholesale energy market in California should be withdrawn.

5. The Report Makes Overly Generalized And Unsubstantiated Assertions About The Efficiency And Benefits Of Cogeneration

At page 63, the Report asserts that:

> Cogeneration . . . is the most efficient and cost-effective form of DG, providing numerous benefits to California, including reduced energy costs, more efficient fuel use, fewer environmental impacts, improved reliability and power quality, locations near load centers, and support of utility transmission and distribution systems.[22]

No factual support or analysis is provided to back up these sweeping conclusions. In fact, it can easily be demonstrated that the efficiency, fuel savings, and reductions in energy costs associated with cogeneration depend on the application. Many current applications of cogeneration are far less efficient than alternative available thermal applications. However, the Report makes no effort to analyze the range of perceived benefits from cogeneration, and consequently fails to tailor its broad policy recommendations to actual benefits that can be realized.

The Report also fails to acknowledge that, pursuant to the federal Policy Act of 2005, FERC has been directed to establish new efficiency standards for cogeneration facilities. FERC issued a notice of rulemaking on October 11, 2005 to establish rules that ensure, among other things, that "new qualifying cogeneration facilities are using their thermal output in a productive and beneficial manner."[23] California should not adopt long-term procurement policies for new

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[22] Report at 63.

[23] Notice of Proposed Rulemaking, FERC Docket No. RM05-36-000.

cogeneration premised on perceived, but unsubstantiated benefits and efficiencies of cogeneration until FERC has concluded its Rulemaking.

6. The Report's CHP Findings Do Not Correlate To Findings Made By The CPUC

At page 65, the Report states:

> Based on the analysis conducted over the course of the *2005 Energy Report* and extensive input from industry, utilities, the public and others, the Energy Commission believes there are several key initiatives that California must pursue to enable construction of additional cost-effective DG and CHP installations. First, CHP is of such unique value in terms of meeting the loading order's efficiency and new generation objectives that CHP warrants its own designation in the loading order. Therefore, the Energy Commission and CPUC should separate CHP from DG in the next version of the *Energy Action Plan* so that CHP issues and strategies are not subsumed by broader DG issues and strategies.[24]

The Report's statements concerning the cost-effectiveness or "unique value" of DG and CHP are unsupported. In fact, the limited cost-benefit analysis that has been conducted thus far supports the opposite conclusion. Itron, an independent consultant hired by the CPUC, recently released a report evaluating the cost effectiveness of the Self Generation Incentive Program (SGIP).[25] This report showed that DG, including CHP, was not cost-effective from the perspective of California ratepayers or society as whole. In particular, the report showed that CHP systems had an overall societal benefit to cost ratio of .72. The benefit to cost ratio was even lower for California ratepayers – a mere .56.[26]

Further, some of the purported "benefits" of DG described in the Report are not supported by CPUC decisions, the evidence presented in the DER-OIR (R.04-03-017), or the Draft Decision issued in that proceeding. For instance, the Report states that, "DG reduces the

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[24] Report at 65.

[25] *See* Itron, Inc., CPUC Self Generation Incentive Program Preliminary Cost-Effectiveness Evaluation Report dated September 14, 2005.

[26] *See* Itron, Inc., CPUC Self Generation Incentive Program Preliminary Cost-Effectiveness Evaluation Report dated September 14, 2005, at I-6, Table I-2.

need for new additions to the state's transmission and distribution infrastructure."[27] In R.99-10-025, the CPUC heard extensive testimony on this issue, and determined that ordinarily, a DG does not provide any transmission and distribution deferral. In particular, the Commission found that in order to provide Transmission and Distribution (T&D) benefits, DG must (1) be installed and operational at the right place and the right time, (2) provide the capacity size required to meet the utility's needs, and (3) provide physical assurance to ensure a real load reduction.[28] The recent hearings in R.04-03-017 and the recent Draft Decision reaffirm the findings in D.03-02-068. Therefore, the Report should be revised to reflect that these benefits are not generally accepted.

7. The Report Should Revise Its Recommendations Regarding Special Contract Treatment For CHP

At page 65, the Report states that the State needs to improve access to wholesale energy markets and CHP owners' ability to secure long-term utility contracts to allow these owners to sell their excess electricity.[29] The Report asserts that this would provide CHP owners with enough certainty to guide their investment decisions to install or expand CHP operations to meet their full thermal needs.[30] Specifically, the Report argues that by the end of 2006, the California Independent System Operator (CAISO) should modify its tariffs for CHP owners to recognize the unique operational requirements of CHP and allow owners to sell power to the grid at reasonable and appropriate price and that by the end of 2006, the CPUC should require IOUs to buy, through standard offer contracts, all electricity from CHP plants in their service territories as delivered at the utility's avoided cost, as determined by the CPUC in R.04-04-025.[31] SCE disagrees with special contracting policies for such resources.

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[27] Report at 63.
[28] D.03-02-068, p. 18.
[29] Report at 65.
[30] Report at 65.
[31] Report at 65.

First, all generation facilities, including CHP, already have every opportunity to compete in utility competitive solicitations. Second, IOUs should not be required to take on an additional obligation other retailers are able to avoid. There is no legitimate policy reason for treating IOUs differently than any other class of LSEs. Policy makers involved in resource adequacy have recognized this fact and structured policies accordingly. CHP policies should be structured consistent with this "equal treatment" philosophy.

8. The Report's Recommendations For Incorporating CHP Into IOU Systems And System Planning Are Flawed And Must Be Revised

The Report has a threefold recommendation for giving IOUs a reason to incorporate CHP into their systems and system planning. Each of these recommendations contains inaccuracies which must be corrected.

The Report states:

> As the *Assessment of California CHP Market and Policy Options for Increased Penetration* indicates, all CHP policy scenarios produce a utility revenue loss from the installation of CHP, even though society benefits as a whole.[32] In order for California to attain its preference for DG and CHP, the IOUs should be compensated for revenue shortfalls to the point of making them at least neutral to the deployment of DG and CHP on their respective systems.[33]

This statement is incorrect. Under current ratemaking mechanisms, there is no revenue shortfall to the IOU as shortfalls are made up by other ratepayers. The Report's statement should be revised accordingly.

Additionally, the Report recommends that the State use CHP to effectively provide air quality and greenhouse gas reduction benefits while reducing transmission and distribution congestion. Specifically, the Report recommends that, to maintain the environmental and transmission benefits, California should explore production credits for CO_2 reductions provided

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[32] As discussed above, any statements concerning societal "benefits" are premature and contrary to preliminary findings by Itron in its Report on the cost-effectiveness of the SGIP Program.

[33] Report at 66.

by CHP, and by the end of 2006, the CPUC should direct utilities to provide transmission and distribution capacity payments for CHP projects.[34] The Report's findings ignore a recent University of California Energy Institute report entitled "Quantifying the Air Pollution Exposure Consequences of Distributed Electricity Generation." The following is an excerpt from the executive summary:

> **Considering typical emission factors for the five DG technologies, the mass of pollutant inhaled per unit electricity delivered can be up to three orders of magnitude greater for DG units as compared to existing California central stations.** To equalize the exposure burden between DG and central station technologies, DG emission factors will need to be reduced to a range between the level of the cleanest, new central stations in California and an order of magnitude below those levels, depending on the pollutant and siting. We conclude that there is reason to caution against an unmitigated embrace of DG technologies that emit air pollutants so that they do not pose a greater public health burden than the current electricity generation system.[35]

To ensure a balanced policy position, the Report should reflect the findings of this report.

C. The Report's GHG Performance Standard Proposal For Utility Procurement Will Not Encourage Clean Coal Development And Will Result In Higher Reliance On Natural Gas

At page 71, the Report states:

> The Energy Commission recommends that any GHG performance standard for utility procurement be set no lower than levels achieved by a new combined-cycle natural gas turbine. Additional consideration is needed before determining what role, if any, GHG emission offsets should play in complying with such a performance standard.[36]

As explained in SCE's letter from Pedro Pizarro to CEC Chairman Desmond, dated October 6, 2005, regarding a responsible clean coal policy for California,[37]

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[34] Report at 68.
[35] *See* http://www.ucei.berkeley.edu/PDF/EDT_005.pdf *(emphasis added)*.
[36] Report at 71.
[37] Letter of Pedro J. Pizarro to Chairman Desmond on October 6, 2005.

(1) using natural gas emission standards would backfire and result in higher natural gas use instead of encouraging development of clean coal technologies since gas would meet standards easily, while coal would not; (2) performance standard enforcement is difficult, and the proposal might result in so called "carbon laundering" and (3) although significant advancements have been made in clean coal technologies in recent years, no one technology has emerged as superior. Moreover, carbon separation and sequestration at the scale required is immature and does not yet represent a commercially feasible solution to greenhouse gas emissions.

Natural gas prices are rising and there are significant concerns about supply. California will need affordable electricity from a variety of energy sources including coal. Therefore, the CEC should not support a policy requiring new coal fired and other fossil fueled plants to meet natural gas-fired combined cycle combustion turbine CO_2 emission rates. If the CEC continues to support a combined cycle generation turbine (CCGT) CO_2 performance standard for new coal plants, the policy should at a minimum clarify that it is 1) only intended to apply to power procurement from new, baseload facilities; and 2) should include a reasonable offset provision that allows for valid reductions wherever they are most cost effective.

Finally, substantial legal hurdles will need to be overcome, including potential violations of the Interstate Commerce Clause. Failure to apply the suggested procurement limitations to all LSEs, including municipal utilities, community choice aggregators (CCAs), and ESPs, would create serious distortions in the State's electricity marketplace and raise additional equity and legal issues.

V.

COMMENTS ON CHAPTER 6—RENEWABLE RESOURCES FOR ELECTRICITY GENERATION

At page 89, the Report asserts there are four "major barriers" to achieving the State's renewable procurement goals. These include: (1) a lack of long term purchase agreements for power; (2) the need for new or upgraded transmission facilities; (3) the impact of integrating large amounts of intermittent renewable resources into the electricity grid; and (4) the need to re-power aging facilities.[38] Although SCE agrees that each of these issues is relevant to the progress of renewable development under the State's RPS program, the Report's discussion and policy recommendations concerning these issues are flawed and should be revised or withdrawn for the specific reasons discussed below.

A. Despite Isolated Stakeholder Complaints, The RPS Program, Though Not Perfect, Has Been A Success; Certainly It Is Premature To Cast Stones Either At The CPUC's Implementation Of The Statute Or The IOUs' Procurement Efforts

Before turning to a specific response to the "barriers" identified in the Report, it is important to place these concerns in a broader context. As the Report acknowledges, the RPS program is being developed pursuant to legislation, Senate Bill (SB) 1078, which was enacted and signed into law in 2002, and which became effective at the beginning of 2003. Codified at Public Utilities Code Section 399.11 *et seq.*, the legislation establishes a comprehensive framework for achieving a goal of 20 percent renewables by 2017. The Governor's Energy Action Plan (EAP), adopted by the CPUC and the CEC, endorses accelerating this target to 2010, but there is no statutory authority for this accelerated target.[39]

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[38] Report at 89.

[39] The Legislature is currently considering codifying the accelerated RPS goal.

With broad public participation and comment,[40] the CPUC has taken several critical steps to discharge its obligations under the RPS legislation. Among other things, the CPUC has held stakeholder workshops, evidentiary hearings, solicited briefs and party comments and issued several decisions with respect to the key areas of RPS implementation. The CPUC has issued a series of decisions concerning flexible compliance, least cost/best fit evaluation, standard contract terms and conditions, and market price referent methodology.[41] Much of the current implementation of the regulatory framework was developed through technical workshops, which produced a commendable level of stakeholder consensus.[42] In short, through an open public process that invited and obtained significant stakeholder participation, the CPUC has largely resolved a number of important technical details and implemented the fundamental regulatory requirements of the RPS legislation. As a result of the process, thousands of megawatts of new, eligible renewable resources have been contracted to meet the State's RPS requirements.

As part of its ongoing statutory mandate, the CPUC also continues to refine its implementation of the RPS legislation and to monitor IOU compliance with the statute. For example, as noted in the Report, the CPUC is moving forward to implement rules for participation of ESPs and CCAs in the RPS program, as also required by statute. Additionally, the CPUC has recently opened a new proceeding to inquire into transmission issues related to RPS procurement.[43]

Many of the "barriers" and "problems" identified in the Report with respect to RPS implementation appear to be addressed to the CPUC's implementation processes and decisions. Although SCE does not agree with every aspect of every CPUC decision issued in this area, as a

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[40] Interveners in the CPUC's proceedings concerning RPS implementation include, among others, the Union of Concerned Scientists, the Green Power Institute, the California Wind Energy Producers Association, TURN, The California Biomass Energy Alliance, and CEERT. In addition, the CEC has participated actively in these proceedings, both by providing testimony, and through the participation of CEC "collaborative" staff.

[41] *See* D.03-06-071; D.04-07-029; D.04-06-014; D.04-06-015.

[42] For example, the CPUC adopted the current market price referent (MPR) methodology following a series of workshops widely attended by stakeholders and agency staff, at which all parties agreed to a cash flow simulation model proposed by SCE.

[43] *See* Order Instituting Investigation 05-09-005, issued September 12, 2005.

general matter, the CPUC's actions have been timely and its decisions have been made with full public participation. Given the CPUC has jurisdiction to implement most aspects of the RPS legislation and that the CEC, through its staff, has participated directly in these efforts, it is unclear why the Report makes policy recommendations that are contrary to these CPUC precedents, and, in many cases, contrary to existing statute.

Accordingly, the CEC's concern that procurement is not proceeding "quickly" enough, which appears to set the stage for much of the CEC's remaining policy critique and recommendations, is simply unfounded, contrary to CPUC precedent and should be withdrawn. Indeed, these policy discussions and recommendations with respect to matters already considered and settled in final CPUC decisions will only cause confusion and endless second-guessing of the efficacy of the CPUC's implementation efforts.

B. Many Of The Report's Policy Recommendations Will Not Facilitate, And May Actually Impede, Implementation Of The RPS Legislation

The principal reason for the "lack of long term contracts" is the failure to establish rules for applying the RPS legislation to ESPs and CCAs and to extend the compliance requirements of the RPS statute to publicly-owned utilities. Although the Report eventually addresses the need to apply the RPS consistently to all load serving entities, it also mistakenly asserts that a lack of transparency in the bidding, ranking, and contracting processes combined with the administrative complexity of the RPS program as implemented by the CPUC, has resulted in a lack of long term contracts.[44]

1. The CEC Incorrectly Identifies Lack Of Transparency In The Bidding, Ranking, And Contracting Processes As A "Major Problem" With The RPS Program

At page 92, the Report asserts a perceived "lack of transparency" in the bidding, ranking, and contracting processes for program participants and the public as a "primary problem" with

[44] Report at 92.

the RPS program.[45] It is entirely unclear from the Report how greater disclosure would facilitate long-term contracting or improve the RPS process as it has currently been implemented. In fact, "greater transparency" regarding certain aspects of the RPS program, including the MPR and the least-cost/best fit evaluation process would appear to be directly contrary to statute.

There is clearly a tension between the IOUs' desire to keep market sensitive information confidential in order to ensure the best procurement results for their customers and the perceived need to ensure that IOUs do not act "arbitrarily" or in a manner inconsistent the public interest. The PRG represents one means of addressing this tension by establishing a forum within which IOUs can share market sensitive information with non-market participants. In order to ensure that this process works, however, it is essential that the confidentiality of market sensitive information be preserved. The PRG has extensive representation from several state agencies and public interest groups, including TURN, Natural Resources Defense Council, and CEC staff. In addition, the CEC itself has been intimately involved in CPUC proceedings implementing the RPS statute through its "collaborative" staff relationship.

The principal concern voiced in the Report about transparency appears to be that "decision makers at the Energy Commission are not privy to confidential information that is reviewed by the PRG, but must still approve allocation of supplemental energy payments to cover the above-market costs of procuring renewable energy."[46] The concern that *decision makers* at the CEC, as opposed to its staff, do not have access to information available to the IOUs PRGs can easily be remedied by the execution of a non-disclosure agreement. The Report does not address this obvious solution. The perceived lack of transparency for some CEC personnel is an issue entirely of the CEC's own making, and does not provide a reasoned basis for questioning the integrity of the procurement processes established and approved by the CPUC.

Accordingly, this portion of the Report should be withdrawn.

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[45] Report at 92.
[46] Report at 93.

2. The CEC Incorrectly Asserts The Complexity Of The RPS Program As A "Major Problem"

Another "primary problem" asserted by the Report is the perceived complexity of administering the RPS program.[47] The principal concern appears to be about the complexity of the MPR.

There is no question that the MPR, as envisioned by the RPS statute, involves administrative simulation of the long-term fixed and variable operating costs of a new gas-fired generator. This simulation necessarily involves consideration of many variables and input values. Although the CEC may view this approach as needlessly complex, it is required by statute. Furthermore, to the extent that the MPR approach adopted by the CPUC is complex, it must also be recognized that the methodology is the largely the product of stakeholder consensus, achieved in collaboration with CPUC and CEC staff. The parties and staff continue to refine the methodology through workshops, comments and briefs.

All of the "options" suggested in the Report with respect to the MPR are contrary to law, and would, as recognized by the Report require new legislation.[48] Further, there is no evidentiary basis for concluding that the MPR is administratively cumbersome or methodologically incapable of producing results that are lawful and consistent with State policy concerning the development of renewable resources.

Accordingly, this section of the Report should be withdrawn.

3. The Recommendation For A Mandatory "Contract-Risk Margin" Is Contrary To Law And Should Be Withdrawn

The Report also calls for IOUs to procure a prudent contract-risk margin of 30 percent above the annual procurement targets,[49] a recommendation that would likely force the execution

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[47] Report at 92.
[48] Report at 94.
[49] Report at 94.

of additional long-term contracts by requiring IOUs to procure renewable generation at levels well in excess of the State's 20 percent target.

In support of this recommendation, the CEC identifies a number of factors that may cause renewable facilities to miss milestones or to fail to come on line as planned. While project viability is certainly a concern, there are several reasons not to adopt the static contract risk margin suggested by the report. First, the CPUC, which has jurisdiction to adopt flexible compliance rules, has already addressed this issue. Recognizing that the viability of projects should be a part of the utilities contingency planning, the CPUC has already directed the utilities to file updated 10-year RPS plans that consider project viability. In doing so, the CPUC rejected proposals by, for example, Green Power Institute, to build in static "contract-risk" margins or "reserve" margins into their plans.

Second, if the concern is under-procurement, the CPUC has already implemented a penalty scheme which establishes substantial disincentives for under-procurement. It is unclear why the CEC's proposed "contract-risk margin" is a necessary addition to the established penalty scheme.

For these reasons, this section of the Report should be withdrawn.

4. The Recommendation To Develop Standard Offer Contracts Is Contrary To CPUC Precedent And Should Be Withdrawn

The Report suggests that the CEC should work with the CPUC to develop standard offer contracts to speed up RPS procurement process.[50] However, after evidentiary hearings, comments and briefing, the CPUC has already considered at length the merits of standardizing contracts as opposed to standardizing certain key terms and conditions. This inquiry resulted in a final CPUC decision that determined not to develop standard offer contracts. The Report offers no basis for its recommendation that, contrary to the CPUC's findings, standard contracts should be developed. Accordingly, this section of the Report should be withdrawn.

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[50] Report at 96.

5. Applying The RPS Targets Consistently To All Load Serving Entities Is Essential, But Renewable Energy Credits Will Not Bridge The Gap

At page 95 of the Report, the CEC expresses concern that the "RPS procurement targets are not being met uniformly among the various load serving entities."[51] SCE agrees that this is a matter of serious concern. Current statutes require ESPs and CCAs to meet the same standards as SCE and the other IOUs. The CPUC should act promptly to formalize these requirements. There is no requirement for additional legislation with respect to these entities.

SCE also agrees that the State should extend the RPS requirements to publicly owned utilities such as Sacramento Municipal Utility District (SMUD) and the Department of Water and Power (DWP). Mandating compliance with the same RPS statutory requirements by these types of entities is the only way for the state to achieve 20 percent renewables statewide in a fair and equitable manner to ensure that all customers who benefit from the RPS share in the cost. SCE agrees that the CEC and the CPUC should actively support legislation to extend all of the RPS goals and mandates to publicly owned utilities through legislation.

The Report's discussion of Renewable Energy Credits (RECs) fails to consider and analyze how RECs will address the CEC's stated concern that there is a lack of long term power purchase agreements. RECs also will not address the CEC's concern that the RPS statute is not being applied evenly to all load serving entities. Although the Report asserts that "one way to facilitate participation of all LSE in the RPS is to allow limited use of . . . RECs,"[52] the Report fails to explain where these RECs will come from or how they will produce long-term contracts between LSEs other than IOUs and renewable developers. Any policy recommendation for the recognition of RECs as a device to facilitate RPS compliance should be based on a thorough analysis of how unbundling and trading "attributes" will stimulate the development of renewable

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[51] Report at 95.
[52] Report at 96.

resources in California and not merely produce a "paper" mechanism to accommodate the "typical ESP and CCA business models."[53]

The discussion concerning RECs as a compliance mechanism should be withdrawn. As the Report itself recognizes, "California's RPS program currently does not allow the use of unbundled RECs for RPS compliance."[54]

C. The CEC Should Revise The Report's Statements Regarding The Need For New Or Upgraded Transmission Access For Renewable Resources

The Report contains a limited discussion of the need for new or upgraded transmission facilities for renewables. Generally, SCE agrees with the CEC's assessment that additional transmission needs to be built to accommodate renewables, and that this single barrier can be a major impediment to the meeting of RPS targets. Nevertheless, the Report contains several statements that SCE cannot support.

The Report states:

> California also needs a new approach to assessing transmission costs in the bid solicitation and while evaluating renewable bids under the least-cost, best-fit process. The CPUC's current approach does not account for network benefits, which some parties argue offset the transmission upgrade costs attributable to renewable projects. Other parties believe that the cost of transmission upgrades should not automatically be assigned to RPS projects since those projects can compete for existing transmission capacity under the CA ISO's open access policies.
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> The current approach also allocates the entire cost of transmission upgrades needed to connect bidders in each solicitation to the projects bidding into that solicitation. This approach fails to capitalize on the economies of scale that can be achieved by sizing transmission for multiple generators in rich pockets of potential renewable energy instead of pursuing a piecemeal approach with individual generators. Overly complex administrative burdens associated with developing transmission cost adders for use in IOU

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53 Report at 96.
54 Report at 96.

> RPS procurement are presenting barriers to renewable development.
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> Perhaps the most troubling aspect of transmission cost adders is the assertion by some parties in the CPUC proceeding that the current transmission cost adder approach actually penalizes renewable projects. Under the current structure, all existing users of transmission, primarily fossil-fueled generators, are essentially given priority for current transmission capacity while renewable generators are required to upgrade transmission to gain access to the grid. This perspective is difficult to reconcile with the state's preferred loading order."[55]

This assessment is wrong. Network benefits associated with transmission upgrades are included in the CPUC's approach. Accordingly, this assertion should be deleted.

The Report also incorrectly suggests that renewable resources are being penalized because the current transmission cost adder approach conflicts with the EAP's "Loading Order." Unlike conventional generation, renewable resources must be located where the natural resource resides. Because much of the natural resource is not generally near load centers, many renewable projects require transmission to integrate their power into the grid. This is not due to fossil power being "given priority", as the Report asserts. It is a fact related to the reality of where renewable projects are located relative to the grid.

Moreover, the Transmission Ranking Cost Report (TRCR) process, referred to in the section of the Report quoted above, should not and cannot supplant the Large Generator Interconnection Procedure set forth in Order No. 2003, which requires a System Impact Study to be performed for all generator interconnection requests. These processes are in place to identify the costs associated with integrating new resources into the existing system. They do not envision reordering the dispatch of all existing resources due to the arrival of this new resource, nor should they. Further, operating within the "Loading Order" does not prescribe that transmission upgrades will not be required. It only indicates a preference of procuring new energy resources for serving customer loads. Therefore, the Report should delete the cited

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[55] Report at 98.

language regarding the supposed conflict between current transmission cost adder approaches and the EAP's Loading Order.

D. The CEC Must Acknowledge Practical Barriers To The Repowering Of Aging Wind Facilities

At pages 101-103, the Report discusses wind repowering, noting that there are currently 1,000 MW of aging wind facilities statewide.[56] This section of the Report focuses principally on avian mortality mitigation measures that have impeded relicensing in the Altamont Pass Wind Resource Area. Although the Report makes no findings or recommendations with respect to either the technical or economic potential for repowering existing wind facilities in statewide or in SCE's service territory specifically, it implies that SCE has not taken full advantage of wind repowering as an avenue for achieving its RPS goals, stating that "California has made *only limited* progress toward repowering wind facilities, with *only* 37 MW of repowered wind contracts submitted by SCE to the CPUC as of July 2005."[57] This is a statement without any factual basis.

First, many of SCE's existing wind projects have already repowered, and therefore are not eligible candidates for repowering.

Second, as the CEC knows, SCE aggressively pursued wind repowering opportunities at facilities that have not already repowered. In late 2004, SCE executed four repowering amendments with wind facilities, which were approved by the CPUC on July 21, 2005.[58] SCE's renewable procurement plan, originally filed on March 7, 2005, also sets forth an ambitious repowering and expansion plan.[59] In pursuit of repowering opportunities to achieve its procurement plan objectives, SCE has taken concrete steps to solicit wind facilities' interest in

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56 Report at 101-103.
57 Report at 102 (*emphasis supplied*).
58 Res. E-3935 (July 21, 2005).
59 *See* Southern California Edison Company's (U 338-E) Renewable Procurement Plan 2005-2014 at 35-37 (March 7, 2005); Southern California Edison Company's (U 338-E) Revised Renewable Procurement Plan 2005-2014 at 35-37 (July 6, 2005).

SCE's repowering and expansion plan. For example, on April 29, 2005, SCE sent a letter to California Wind Energy Association (CalWEA) asking it to identify any of its members under contract with SCE that are interested in repowering or expanding their existing facilities through the use of new technology. In June 2005, SCE sent letters to all wind facilities currently under contract with SCE requesting that any facilities interested in repowering or expansion contact SCE. Despite these overtures, however, SCE received only a limited response from wind facilities. SCE received few proposals from small wind facilities seeking to repower, and only one proposal for a large wind repower, which SCE is currently reviewing.

While SCE remains committed to optimizing the repowering and expansion potential from its existing renewable projects, particularly wind facilities, the response to SCE's solicitations for wind repowering opportunities suggests that the potential yield from wind repowering may be considerably smaller than originally anticipated based on public statements by CalWEA and others implying a vast, pent-up potential quantity of wind repowering opportunities in SCE's service territory. Certainly, the potential is considerably less than the Report's reference to the entire fleet of aging wind facilities in California is apparently meant to suggest.

In short, the implication that SCE has not aggressively pursued wind repowering or that there is significant untapped potential for repowering is simply contrary to fact. Setting aside the issue of avian mortality, which does not appear to be a significant issue with respect to wind facilities in SCE's service territory, the Report fails to identify any specific problem that needs to be remedied in this area, and makes no specific policy recommendations.[60] Unless specific facts are identified to substantiate further consideration of the State's policies in this area, SCE recommends that this section be withdrawn from the Report.

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[60] The Report does refer to the "California Fix," indicating that the prospect of receiving payments at SCE's avoided cost in lieu of inflated contract rates has discouraged repowering by existing wind facilities. As the CEC is certainly aware, however, utilities cannot be required to alter the terms and conditions of existing contracts, nor can they be compelled to pay rates in excess of avoided cost to QFs. Further, as the CEC is also aware, the federal production tax credit is a matter exclusively within federal jurisdiction. In any event, the Report offers no policy recommendation on this point.

VI.

COMMENTS ON CHAPTER 8—INTEGRATING WATER AND ENERGY STRATEGIES

SCE supports the Report's recommendations to: a) identify and implement cost-effective retrofits in the water system that increase efficiency and b) provide both energy and peak savings and to examine opportunities to shift loads off-peak by maximizing use of storage in existing pumped hydro facilities, increase use of water storage tanks and conveyance systems throughout the state, develop time of use (TOU) water tariffs and meters, and increase flexibility in water deliveries.[61] These recommendations can be maximized by leveraging the existing utility Energy Efficiency and Demand Response programs.

SCE, however, disagrees with other recommendations. Specifically, SCE disagrees with the recommendations that: a) Allow water and wastewater utilities to self-generate and wheel power within their own systems and b) expedite and reduce the cost of interconnection, eliminate economic penalties such as standby charges, and remove size limitations for net metering.[62]

As to the first recommendation, all electric utility customers, including water and wastewater utilities, have the ability to self-generate; however, the rules governing self-generation must be fair to all customers. For example, the CPUC rejected similar wheeling proposals in both D.03-02-068 and more recently in the 2004 Procurement Decision (D.04-01-050). Specifically, Conclusion of Law 40 in D.04-01-050 rejects self-wheeling by stating, "Since direct access transactions have been suspended, there is currently no means for customers to serve their own loads with remotely sited generation."[63] Therefore, the recommendation to permit distribution wheeling should be removed.

As to the second recommendation, the interconnection process has been improved and expedited through the State's successful Rule 21 Working Group Process led by the CEC.

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61 Report at 132.
62 Report at 132.
63 D.04-10-050, COL 40.

Furthermore, in several recent proceedings and through numerous decisions, the CPUC established rules regarding interconnections of distributed generation based on recommendations by the CEC and established new cost- based standby charges (in SCE's case). Referring to cost-based standby charges as a "penalty" fails to recognize that unjustified cost-waivers for a certain class of customers unfairly transfer the burden to other customers. Additionally, size limitations for net metering have been established by the Legislature.

Thus, with respect to self-generation and distributed generation, there is no reason to treat water and wastewater utilities differently than other customers. For all of the foregoing reasons, these recommendations should be removed.

VII.

COMMENTS ON CHAPTER 9—GLOBAL CLIMATE CHANGE

SCE suggests certain subcommittee recommendations found at page 139 should be revised as follows:

> A minority of the subcommittee took issue with several of the above positions and concluded that:
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> • Actions to address climate change will be most effective if implemented at the national and international level, or at a minimum, among the 14 electrically interconnected western states. ~~Any mandatory state program should be done in concert with states in the WECC.~~ Unilateral programs implemented by California will shift GHG emissions to generators in other states with which California is electrically linked, thus eliminating any overall reduction, and will result in higher prices and reduced reliability to California customers.
>
> To the extent that any greenhouse gas mitigation obligation is enacted such obligation should be: economy wide; provide protection of state's economy through provision of a limit to the cost per ton of emissions reduced; and allow offsets that are cost effective without geographic or other restriction. These conditions would be particularly important if the obligation was enacted in California alone.

VIII.

CONCLUSION

SCE appreciates the opportunity to comment and urges the CEC to incorporate these comments into the final report.